

1. Which pair of goals tend to be conflicting?
  - A) economic growth and an equitable distribution of income.
  - B) full employment and economic growth
  - C) full employment and economic security
  - D) full employment and an equitable distribution of income
  
2. Which of the following is not a part of a market system?
  - A) private property
  - B) freedom of enterprise and choice
  - C) competition in product and resource markets
  - D) government determination of basic economic goals
  
3. We observe a market where the price has risen and the quantity being sold has declined. This could be caused by a(n):
  - A) increase in demand.
  - B) increase in supply.
  - C) decrease in demand.
  - D) decrease in supply.



Use the following to answer questions 4-5:

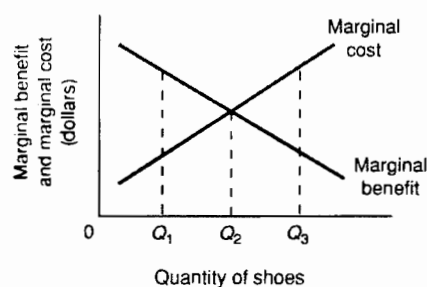
Production possibilities (alternatives)

|                | A | B | C | D  | E  | F  |
|----------------|---|---|---|----|----|----|
| Capital goods  | 5 | 4 | 3 | 2  | 1  | 0  |
| Consumer goods | 0 | 5 | 9 | 12 | 14 | 15 |

4. Refer to the above table. If the economy is producing at production alternative C, the opportunity cost of the tenth unit of consumer goods will be:
  - A) 4 units of capital goods.
  - B) 2 units of capital goods.
  - C) 3 units of capital goods.
  - D)  $\frac{1}{3}$  of a unit of capital goods.

5. Refer to the above table. For this economy to produce a total output of 3 units of capital goods and 13 units of consumer goods it must:
- achieve economic growth.
  - use its resources more efficiently than the data in the table now indicate.
  - allocate its available resources most efficiently among alternative uses.
  - achieve the full employment of available resources.
6. The horizontal axis of a graph which shows a market demand curve indicates the:
- prices at which various levels of output can be sold.
  - number of consumers who are in the market for this product.
  - various quantities of output at which the market will be cleared.
  - quantities which consumers will be willing and able to buy at various prices.

Use the following to answer question 7:



7. Refer to the above diagram for athletic shoes. If the current output of shoes is  $Q_1$ , then:
- society would consider additional units of shoes to be more valuable than alternative products.
  - society would consider additional units of shoes to be less valuable than alternative products.
  - society would experience a net loss by producing more shoes.
  - resources are being allocated efficiently to the production of shoes.
8. Assume that Nation X can produce either 40 notepads or 80 pens, and that Nation Y can produce either 10 notepads or 40 pens.
- Nation X has a comparative advantage in producing pens.
  - Nation Y has a comparative advantage in producing notepads.
  - Nation X has a comparative advantage in producing notepads.
  - Nation Y is the high-cost producer of pens.

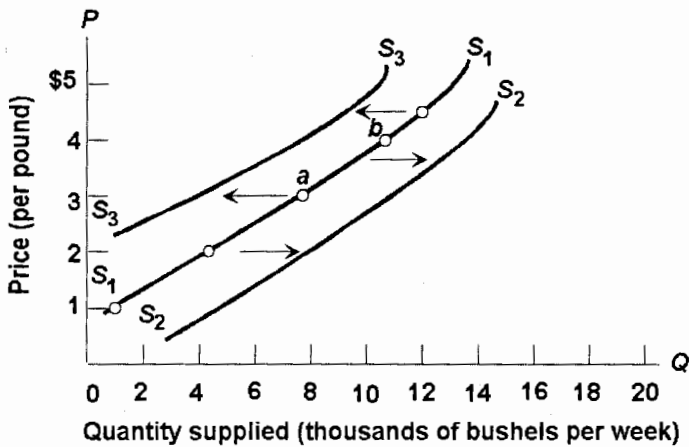
*2 pens / Notepad*  
*4 pens / Notepad*

9. "If you leave a football game at the end of the third quarter, you will avoid traffic and get home more quickly. Therefore, everyone should leave the game early." This illustrates the:
- A) moral hazard problem.
  - B) adverse selection problem.
  - C) fallacy of limited decisions.
  - D) fallacy of composition.
10. A firm's supply curve is upsloping because:
- ~~A~~ the expansion of production necessitates the use of qualitatively inferior inputs.
  - B) mass production economies are associated with larger levels of output.
  - ~~C~~ consumers envision a positive relationship between price and quality.
  - D) beyond some point the production costs of additional units of output will rise.
11. Trade between different nations create:
- A) lower standard of living.
  - B) higher specialization.
  - C) lower productivity.
  - D) higher unemployment worldwide.
12. Assuming an economy has fixed quantities of resources, that economy:
- A) is more efficient, the larger the amount of goods and services it produces.
  - ~~B~~ is able to satisfy all consumer wants.
  - ~~C~~ will produce the same output whether or not resources are used efficiently.
  - ~~D~~ is able to produce the same amount of output regardless of the production technologies it chooses.
13. If variables X and Y are positively correlated, this means that:
- A) X is the cause of Y.
  - B) Y is the cause of X.
  - C) causation necessarily exists, but we don't know whether X or Y is the cause.
  - D) causation may or may not exist between X and Y.
14. Even though local newspapers are very inexpensive, people rarely buy more than one of them each day. This fact:
- A) is an example of irrational behavior.
  - B) implies that reading should be taught through phonics rather than the whole language method.
  - C) contradicts the economic perspective.
  - D) implies that, for most people, the marginal benefit of reading a second newspaper is less than the marginal cost.

15. It is common for many students at Informed University to engage in ticket scalping before IU football games. This suggests that IU's:
- A) athletic department is setting ticket prices below the equilibrium level.
  - B) athletic department is setting ticket prices above the equilibrium level.
  - C) Fighting Aardvarks are on a losing streak.
  - D) football games are rarely sold out.
16. Which of the following is a microeconomic statement?
- ☒ A) The real domestic output increased by 2.5 percent last year.
  - ☒ B) Unemployment was 8.3 percent of the labor force last year.
  - C) The price of personal computers declined last year.
  - ☒ D) The general price level increased by 4 percent last year.
17. The term dollar votes means:
- A) inflation will occur if consumers don't spend wisely.
  - B) voters may be offered dollars to help elect certain political candidates.
  - C) government is responsible for determining what will be considered legal tender.
  - D) consumers "vote" for certain products to be produced by how they spend their incomes.
18. If consumers are willing to pay a higher price than previously for each level of output, we can say that there has occurred:
- A) a decrease in demand.
  - B) an increase in demand.
  - C) a decrease in supply.
  - D) an increase in supply.
19. "Consumers spend their incomes to get the maximum benefit or satisfaction from the goods and services they purchase." This is a reflection of:
- A) resource scarcity and the necessity of choice.
  - B) rational behaviour.
  - C) marginal costs which exceed marginal benefits.
  - D) the tradeoff problem which exists between competing goals.
20. If an increase occurs in the demand for product X, we would expect all of the following to occur except:
- A) an increase in the profits of industry X.
  - B) an increase in the demand for resources employed by industry X.
  - C) an increase in the output of industry X.
  - D) a decrease in the prices of resources employed in industry X.

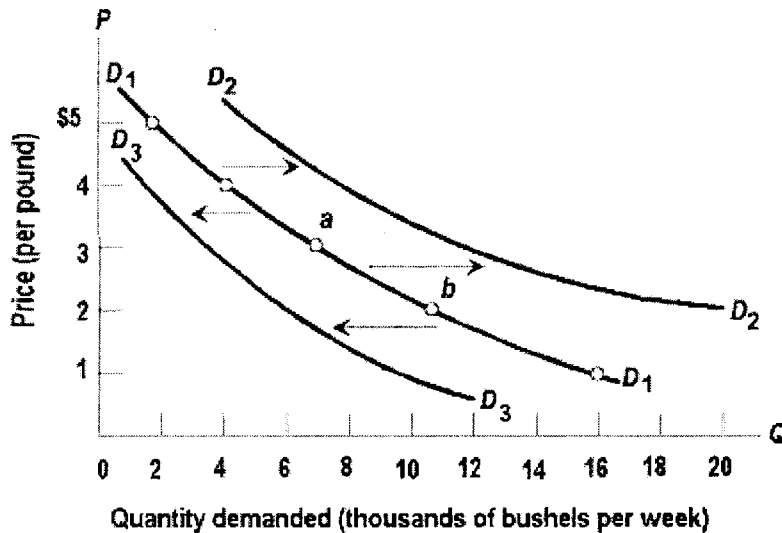
21. Through specialization and international trade a nation:
- A) can attain some combination of goods lying outside its production possibilities curve.
  - B) can move from a high consumption-low investment to a high investment-low consumption point on its production possibilities curve.
  - C) will attain some combination of goods lying within its production possibilities curve.
  - D) will cause its production possibilities curve to shift leftward.
22. With respect to the basic economic goals of society, for example, economic growth, full employment, economic efficiency, price level stability, and distributional equity, it **can** be said that:
- A) all are accepted and assigned similar priorities in every industrialized society.
  - B) all are precisely measurable.
  - C) some goals are complementary and others are conflicting.
  - D) all are conflicting goals.
23. From an economic perspective, when consumers leave a fast-food restaurant because the lines to be served are too long, they have concluded that the:
- A) marginal cost of waiting is less than the marginal benefit of being served.
  - B) marginal cost of waiting is greater than the marginal benefit of being served.
  - C) management is exhibiting irrational behavior by not maximizing profits.
  - D) management is making an assumption that other things are equal.
24. The primary objective of economic science is to help businesspersons **operate their firms** profitably.
- A) True
  - B) False
25. One of the basic economic defenses of economic growth rests on the conclusion that:
- A) growth makes workers less obsolete and more secure in employment.
  - B) growth reduces the cost to society of "common property" resources.
  - C) growth makes the gap between unlimited wants and scarce resources less acute.
  - D) a growth-oriented society confers a "work and look to the future" attitude on the members of society.

Use the following to answer question 26:



26. Refer to the above diagram, which shows three supply curves for corn. Which of the following would cause the change in the supply of corn illustrated by the shift from  $S_1$  to  $S_3$ ?
- A) a decrease in the price of fertilizer
  - B) an increase in the price of irrigation equipment
  - C) an increase in consumer incomes
  - D) a change in consumer tastes in favor of cornbread
27. If products C and D are close substitutes, an increase in the price of C will:
- A) tend to cause the price of D to fall.
  - B) shift the demand curve of C to the left and the demand curve of D to the right.
  - C) shift the demand curve of D to the right.
  - D) shift the demand curves of both products to the right.

Use the following to answer question 28:



28. Refer to the above diagram, which shows three demand curves for coffee. Which of the following would cause the change in the demand for coffee illustrated by the shift from  $D_1$  to  $D_3$ ?
- A) a decrease in the price of tea
  - ~~B) an increase in consumer incomes~~
  - ~~C) a decrease in the price of sugar~~
  - ~~D) a technological improvement in the production of coffee~~
29. The existence of "spillovers" or "externalities" weakens the efficiency with which the market system functions because they:
- A) are a major source of inflation.
  - B) mean that certain essential goods and services do not get produced at all.
  - C) are a major source of employment.
  - D) cause certain goods to be overproduced or underproduced.
30. Money functions as a medium of exchange in permitting the ready comparison of the relative worth of heterogeneous products.
- A) True
  - B) False

31. The production possibilities curve:
- ☒ A) shows all of those levels of production which are consistent with a stable price level.
  - ☒ B) indicates that any combination of goods lying outside the curve is economically inefficient.
  - ☐ C) is a frontier between all combinations of two goods which can be produced and those combinations which cannot be produced.
  - ☒ D) shows all of those combinations of two goods which are most preferred by society.
32. Which situation would most likely shift the production possibilities curve for a nation in an outward direction?
- A) a decrease in the quality of products
  - B) an increase in the supply of resources
  - C) a decrease in the state of technology
  - D) an increase in the amount of discrimination
33. The point on the production possibilities curve which entails allocative efficiency can be found by:
- A) estimating the marginal costs of both products in real or physical terms.
  - B) comparing marginal benefits and marginal costs in physical terms.
  - C) determining where least-cost production occurs.
  - D) calculating where economic growth will be greatest.
34. A headline reads "Storms destroy half of the lettuce crop." This situation would lead to a(n):
- A) increase in the price of lettuce and quantity purchased.
  - B) decrease in the price of lettuce and quantity purchased.
  - C) increase in the price of lettuce and decrease in quantity purchased.
  - D) decrease in the price of lettuce and increase in quantity purchased.
35. A characteristic of the market system is:
- A) extensive use of price controls.
  - B) extensive use of barter.
  - C) extensive use of capital goods.
  - D) low interest rates.

Use the following to answer question 36:

| Alpha                    |   |   |   |    | Beta                     |   |   |   |    |
|--------------------------|---|---|---|----|--------------------------|---|---|---|----|
| Production possibilities |   |   |   |    | Production possibilities |   |   |   |    |
| Product                  | A | B | C | D  | Product                  | A | B | C | D  |
| X                        | 3 | 2 | 1 | 0  | X                        | 6 | 4 | 2 | 0  |
| Y                        | 0 | 4 | 8 | 12 | Y                        | 0 | 4 | 8 | 12 |

36. Refer to the above tables. The domestic opportunity cost of one unit of X in Alpha is:
- A) 2 units of Y.
  - B) 4 units of Y.
  - C) 1 unit of Y.
  - D) 3 units of Y.
37. By free enterprise, we mean that:
- A) products are provided free to those who can't afford to buy them.
  - B) individual producers determine how to produce, but government agencies determine what will be produced.
  - C) individuals may obtain resources, organize production, and sell the resulting output in any legal way they choose.
  - D) individuals are free to produce those products that government agencies determine can be produced profitably.
38. All of the following are held to be constant when the supply curve for a product is drawn, *except* the:
- A) price of the product.
  - B) state of technology.
  - C) number of producers.
  - D) price of inputs used to make the product.
39. Unemployment and/or productive inefficiencies:
- A) cause the production possibilities curve to shift outward.
  - B) can exist at any point on a production possibilities curve.
  - C) can both be illustrated by a point outside the production possibilities curve.
  - D) can both be illustrated by a point inside the production possibilities curve.

40. The future location of the economy's production possibilities curve will be affected by:
- A) the current division of domestic output between consumption and capital goods.
  - B) the rate of technological progress.
  - C) the growth of the economy's supplies of resources.
  - D) all of the above.